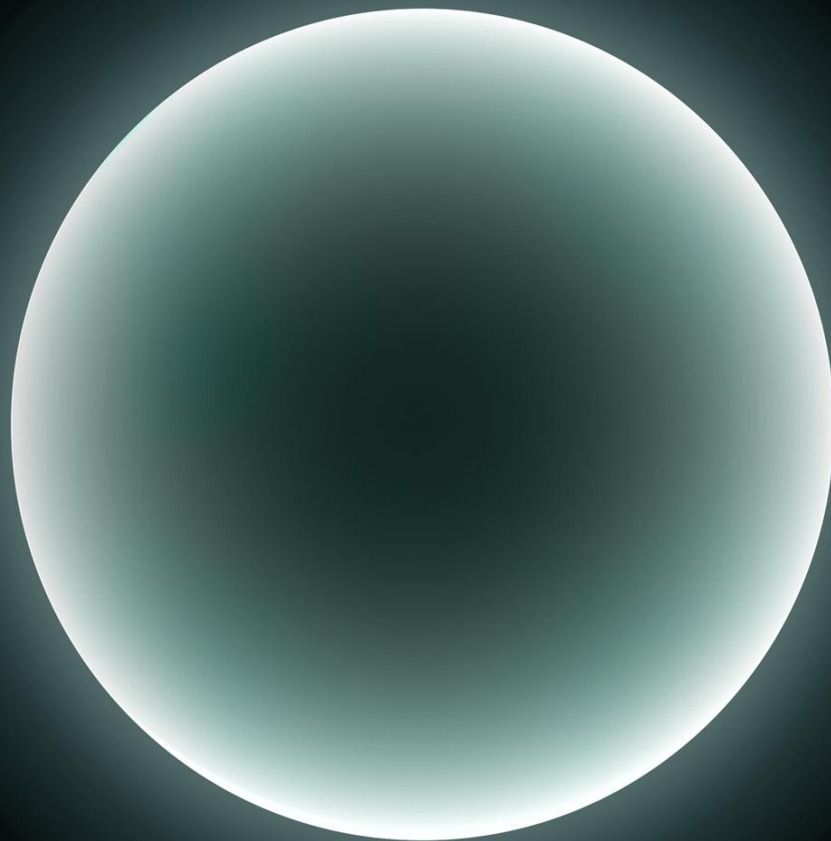


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Cromwell College
Report to the Board of Trustees
for the year ended 31 December 2019

29 May 2020

The Chairperson
The Board of Trustees
Cromwell College
Barry Avenue
Cromwell, 9310

Dear Chairperson

Report to the Board of Trustees for the year ended 31 December 2019

In accordance with our normal practice, we include in the attached report all matters arising from our audit of the financial statements of Cromwell College for the year ended 31 December 2019 which we consider appropriate for the attention of the Board of Trustees ("the Board"). These matters have been discussed with management and their comments have been included, where appropriate.

Should you require clarification on any matter in this report please do not hesitate to contact us.

This correspondence is part of our ongoing discussions as auditor in accordance with our signed engagement letter and master terms of business dated 5 November 2018 and as required by the Office of the Auditor-General's requirements, which include the Auditor-General's auditing standards and New Zealand auditing standards. This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to the Board. The audit of the financial statements does not relieve management or the Board of their responsibilities. The ultimate responsibility for the preparation of the financial statements rests with the Board.

We have prepared this report solely for the use of the Board and it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy without our prior written consent, we would not accept responsibility for any reliance that they might place on it.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during the course of our audit.

If you would like to discuss any matters raised in this report please do not hesitate to contact us.

Yours faithfully



Mike Hawken
Appointed Auditor
On behalf of the Auditor-General

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Contents

1.	Purpose of Report	4
2.	Scope	4
3.	Areas of Focus and Audit Findings	5
4.	Assessment of Internal Controls	8
5.	Other Communications	10

1. Purpose of Report

This report has been prepared for Cromwell College's Board of Trustees and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business dated 5 November 2018 and as required by the Auditor-General's auditing standards and the New Zealand auditing standards. This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to the Trustees. The ultimate responsibility for the preparation of the financial statements rests with the Board of Trustees.

2. Scope

We are responsible for conducting an audit of Cromwell College for the year ended 31 December 2019 in accordance with New Zealand auditing standards issued by the New Zealand Auditing and Assurance Standards Board and the Auditor-General's auditing standards. Our audit is performed pursuant to the requirements of the Public Audit Act 2001, with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Board of Trustees. The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

3. Areas of Focus and Audit Findings

Our audit procedures were focused on those areas of Cromwell College’s activities that are considered to represent the significant risk areas identified during the risk assessment process undertaken during the planning stage of our engagement. Provided below is a summary of these areas of focus and our audit findings in respect of each matter following the completion of our audit. We are satisfied that these areas have been addressed appropriately and are properly reflected in the financial statements.

Focus Area	Response
Responsibility for Fraud	
<p>You may have seen media coverage over the past year relating to a number of Group frauds nationally.</p> <p>In our experience, these had arisen from:</p> <ul style="list-style-type: none">• a lack of control over receipts to the Group, particularly relating to activities funding; and• a lack of strong approval and bank payment controls for Group suppliers, in particular where capital works were undertaken. <p>The primary responsibility for the prevention and detection of fraud rests with the Board of Trustees.</p>	<p>We have inquired as to how the Board exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.</p> <p>If you would like further guidance around fraud prevention, the Ministry have published a model policy on Theft and Fraud Prevention in its Financial Information for Groups Handbook (FISH).</p> <p>However, having a fraud policy is not enough if it is not used as a basis for training or to regularly remind staff that fraud is unacceptable.</p> <p>We would also like to remind the Board that cyber-fraud is becoming more relevant. The Ministry have provided guidance on their website on cyber-safety which we encourage the Board be familiar with.</p>
Locally raised funds	
<p>Locally raised funds has continued to be a focus area because there is a risk that not all cash received is recorded. Although Groups may have a process to record cash receipts, the risk of misappropriation is high if there are limited segregation of duties in place.</p>	<p>As part of our audit procedures, we have:</p> <ul style="list-style-type: none">• Assessed the design and implementation of internal controls surrounding all material revenue streams; and• Performed testing on these balances including analytical procedures. <p>No issues were noted in this area.</p>
Payroll	
<p>As in previous years, payroll related issues linked to Novopay continued to be a focus area for auditors.</p>	<p>We understand that these reports are made available to the Group along with instructions on how to understand them.</p>

Focus Area	Response
<p>We obtained reports from the Office of the Auditor-General (through audit assurance work performed by EY) which aided us in completing our audit of the payroll balances.</p> <p>Key information obtained included:</p> <ul style="list-style-type: none"> • user access to Novopay; • payroll accruals; • leave liability reports; and • exception reports where EY identified exceptions in the payroll system. 	<p>Consistent with our prior year audits we have followed up on any exceptions identified as well as any differences to amounts recorded by the Group. We would also continue to encourage you to follow up on any perceived errors as soon as practical.</p> <p>We have completed design and implementation testing around the high level controls around payroll as well as ensuring that the payroll balances were not materially misstated in the financial statements.</p> <p>No issues were noted in this area.</p>
<hr/>	
<p>Cyclical Maintenance Provision</p>	
<p>A requirement by the MoE is that all Groups have a legal obligation to provide an estimate of the costs related to cyclical maintenance.</p> <p>The estimate of these costs have been recorded in the financial statements as a cyclical maintenance provision; this is what the expected future costs will be to paint the interior and exterior of the Group and in some cases the resealing of car parks. This would span over a number of years.</p>	<p>As part of our audit procedures we have obtained verification (within a three year period) that the provision reasonably reflects the estimated cost to paint the Group in future years. The provision was verified as reasonably correct, by a reliable third party source that has expertise forecasting painting costs.</p> <p>We note that the costs included in your 10 year property plan, should also be assessed on a regular basis to ensure they reflect current prices. We would deem a review every three years as reasonable.</p> <p>No issues were noted in this area.</p>
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<p>Sensitive Expenditure</p>	
<p>Being a public sector entity, we are required to perform specific work on behalf of the Office of the Auditor-General around areas referred to as sensitive expenditure.</p>	<p>In performing the audit we have:</p> <ul style="list-style-type: none"> • Ensured that relevant policies are current and have been appropriately authorised. • Reviewed a sample of expenditure by the Principal and the Board against supporting tax invoices, other documentation and relevant policies and approval guidelines. • Reviewed other sensitive areas such as travel, entertainment and credit cards against supporting tax invoices, other documentation and relevant policies and approval guidelines. • Discussed with the Principal and Chair of the Board about fraud processes and policies and enquired whether they had any

Focus Area	Response
	<p>knowledge of any suspected or identified fraud occurring during the year.</p> <ul style="list-style-type: none"> • Reviewed Board and Principal remuneration against MOE approvals and limits. <p>During our sensitive expenditure testing we noted a reimbursement to the principal for 3 years worth of phone expenses. This reimbursement, while approved by the BOT was not supported by receipts. We recommend the BOT only approve reimbursements supported by a receipt or an invoice.</p>

<p>Office of the Auditor-General (“OAG”) audit brief matters</p> <p>As you are aware our audit is completed under contract from the OAG and annually we are asked to specifically consider certain potential matters of interest.</p> <p>Areas of focus this year remain similar to previous years including:</p> <ul style="list-style-type: none"> • classification of associated entities such as fundraising trusts; • overseas travel; • sensitive expenditure; • financial difficulty risk factors; and • legislative compliance. 	<p>Our audit procedures considered these matters as relevant and in accordance with OAG expectations.</p> <p>The MoE has issued specific guidance on the approval of overseas travel which may be of assistance to Board processes in this area. Where significant the Board is required to disclose overseas travel separately.</p> <p>No specific concerns or findings were noted.</p>
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<p>Publishing Annual Reports online</p> <p>The Education Act 1989 requires you to publish your Annual Report online. Your Annual Report contains your audited annual financial statements including our audit opinion, analysis of variance, list of Trustees and Kiwisport statement.</p> <p>Making your Annual Report accessible to the Group community is important for transparency and accountability. The expectation is that your Annual Report is published as soon as possible after your audit is completed, as the value of good accountability lessens over time.</p>	<p>We note that you did publish your 2018 Annual Report on your website.</p>
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4. Assessment of Internal Controls

Our audit approach requires us to obtain an understanding of an entity's internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error but is not designed to provide assurance as to the overall effectiveness of controls operating within the Group.

We would like to remind the Board of Trustees that it is their responsibility to ensure that there are appropriate policies, procedures and segregation of duties in place with regard to internal controls in particular around cash transactions. The risk of fraud and error occurring is particularly heightened around cash as this is an area where fraud can go easily undetected.

As is the case for many Groups, the number of people involved in the administration and accounting functions is very limited. This brings with it an increased inherent risk that errors and omissions may occur and go undetected.

Having suitable internal controls in place helps the Board protect against, and detect, fraud and error. Most fraud happens in Groups because a person has overridden an internal control or has not followed policies and procedures.

The following are common areas of weakness in internal controls in Group audits:

Cash Receipting

The most common fraud reported in Groups is the theft of small amounts of cash because of weak physical controls and a lack of segregation of duties.

Effective controls require good segregation of duties (needing more than one person to complete the task). Groups, particularly small Groups, can find it difficult to segregate duties, often because they have few administration staff. Where this is the case, management needs to provide careful monitoring and oversight.

Groups may reduce the risk of fraud in this area by:

- Encouraging electronic payment for fees or donations;
- Storing cash in a secure location; and
- Minimizing how long cash is held on the premises.

Credit Cards

There is a trending increase in the use of credit and other cards in Groups and there are often poor controls over these cards. It is important that credit card payments are subject to the same controls as other spending. It is recommended a "one-up" principle is used when approving expenses, including credit card spending. This means the Board chairperson should approve the Principal's expenses. Receipts should be provided to the approver for all spending, along with an explanation for the expenditure.

Group Payroll

Because the Novopay system has limited data entry controls, individual Groups are responsible for checking for and detecting errors by reviewing fortnightly payroll reports. Many Groups do not have someone independent (i.e. someone who does not have access to the payroll) reviewing these payroll reports. Segregation of duties is needed for this to be an effective control. Where Groups are not properly reviewing their fortnightly payroll reports, there is a higher risk of fraud or error.

The inherent risks relating to income are greatest in relation to the receipt and recording of Locally Raised Funds, Donations etc., and there are limited audit procedures we can adopt to ensure all money that should be received is properly accounted for.

Payment risks in relation to Group costs and casual payroll are greatest through the small number of staff available to approve and process payments and typically some admin staff are involved in both of these functions.

It is important that you are aware of these risks as it is your responsibility to ensure the Group's internal controls operate effectively and that the resultant financial statements are accurate. You should ensure that sufficient oversight is exercised by the Board or a delegated nominee on a regular basis in order to reduce the likelihood of error or omission to a level that the Board is comfortable with.

In performing our audit for the year ended 31 December 2019 we have not identified any significant deficiencies in internal controls which would impact upon our ability to provide our opinion on the financial statements for the year ended 31 December 2019.

5. Other Communications

The following matters relevant to our audit for the year ended 31 December 2019 are communicated in accordance with the requirements of New Zealand auditing standards.

Matter to be communicated	Response
Written representations	A copy of the representation letter to be signed on behalf of the Board of Trustees has been circulated separately.
Fraud	<p>The primary responsibility for the prevention and detection of fraud rests with the Board of Trustees, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.</p> <p>As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</p> <p>ISA (NZ) 240 The auditor's responsibility to consider fraud in an audit of financial statements requires us to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.</p> <p>No matters relating to fraud, concerning either employees or management came to our attention.</p> <p>If you do suspect or become aware of any fraud, please contact Mike Hawken to discuss further. We are then required to notify the Office of the Auditor-General.</p>
Accounting policies and financial reporting	<p>There were no changes in accounting policies during the year ended 31 December 2019 other than the adoption of PBE IFRS 9 <i>Financial Instruments</i>.</p> <p>We have not become aware of any significant qualitative aspects of the entity's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Board, other than those already communicated in this report.</p>
Related parties	No significant related party matters other than those reflected in the financial statements came to our attention that, in our professional judgement, need to be communicated to the Board.
Other information	As at the date of preparing this report we have not yet read the other information (the financial and non-financial information other than the financial statements) contained within the annual report. If when doing so we identify any material inconsistencies, we will bring these to your attention.

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